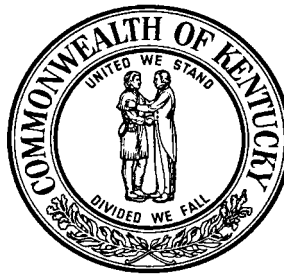


**REPORT OF THE AUDIT OF THE
FORMER ROCKCASTLE COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

August 10, 2002



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**



CRIT LUALLEN
Auditor of Public Accounts

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Buzz Carloftis, Rockcastle County Judge/Executive

Honorable Shirley Smith, Former Rockcastle County Sheriff

Honorable Darrell Doan, Rockcastle County Sheriff

Members of the Rockcastle County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the former Rockcastle County Sheriff's Settlement - 2001 Taxes as of August 10, 2002.

We engaged Ross & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC, evaluated the former Rockcastle County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
FORMER ROCKCASTLE COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

August 10, 2002

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
Facsimile (502) 499-9132

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER ROCKCASTLE COUNTY SHERIFF'S SETTLEMENT - 2001 TAXES

August 10, 2002

Ross & Company, PLLC, has completed the audit of the Sheriff's Settlement - 2001 Taxes for the former Rockcastle County Sheriff as of August 10, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$2,097,524 for the districts for 2001 taxes, retaining commissions of \$86,732 to operate the Sheriff's office. The former Sheriff distributed taxes of \$2,006,814 to the districts for 2001 Taxes. Taxes of \$3,635 are due to the districts from the former Sheriff and refunds of \$309 are due to the former Sheriff from the taxing districts.

Report Comments:

- The Former Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,068,936 To Protect Deposits
- The Former Sheriff Should Have Distributed Interest Earned On Tax Collections Monthly
- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were not insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2002 TAXES	3
NOTES TO FINANCIAL STATEMENTS	5
COMMENTS AND RECOMMENDATIONS	11
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	15

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
Facsimile (502) 499-9132

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Buzz Carloftis, Rockcastle County Judge/Executive

Honorable Shirley Smith, Former Rockcastle County Sheriff

Honorable Darrell Doan, Rockcastle County Sheriff

Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

We have audited the Rockcastle County Sheriff's Settlement - 2001 Taxes as of August 10, 2002. This tax settlement was the responsibility of the former Rockcastle County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Rockcastle County Sheriff's taxes charged, credited, and paid as of August 10, 2002, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 18, 2003, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Buzz Carloftis, Rockcastle County Judge/Executive

Honorable Shirley Smith, Former Rockcastle County Sheriff

Honorable Darrell Doan, Rockcastle County Sheriff

Members of the Rockcastle County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,068,936 To Protect Deposits
- The Former Sheriff Should Have Distributed Interest Earned On Tax Collections Monthly
- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in dark ink.

Ross & Company, PLLC

Audit fieldwork completed -
November 18, 2003

ROCKCASTLE COUNTY
SHIRLEY SMITH, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES

August 10, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 185,853	\$ 225,998	\$ 1,035,822	\$ 337,014
Tangible Personal Property	17,382	18,442	88,609	102,510
Intangible Personal Property				13,051
Fire Protection	1,728			
Increases Through Exonerations				2,383
Franchise Corporation	28,891	30,572	148,451	
Additional Billings	3,825	4,651	21,317	6,936
Limestone, Sand, and Mineral Reserves	168	205	941	307
Penalties	2,528	3,045	13,976	4,756
Adjusted to Sheriff's Receipt	9	18	4	(2)
Gross Chargeable to Sheriff	<u>\$ 240,384</u>	<u>\$ 282,931</u>	<u>\$ 1,309,120</u>	<u>\$ 466,955</u>
<u>Credits</u>				
Exonerations	\$ 8,440	\$ 9,947	\$ 46,069	\$ 22,304
Discounts	2,442	2,910	13,387	5,599
Delinquents:				
Real Estate	7,113	8,623	39,524	12,859
Tangible Personal Property	458	486	2,335	2,062
Intangible Personal Property				164
Delinquent Limestone, Sand, and Gravel	8	10	47	15
Uncollected Franchise	<u>2,281</u>	<u>2,278</u>	<u>12,505</u>	
Total Credits	<u>\$ 20,742</u>	<u>\$ 24,254</u>	<u>\$ 113,867</u>	<u>\$ 43,003</u>
Taxes Collected	\$ 219,642	\$ 258,677	\$ 1,195,253	\$ 423,952
Less: Commissions *	<u>9,622</u>	<u>10,994</u>	<u>47,810</u>	<u>18,306</u>
Taxes Due	\$ 210,020	\$ 247,683	\$ 1,147,443	\$ 405,646
Taxes Paid	209,240	247,254	1,144,801	405,519
Refunds (Current and Prior Year)	<u>67</u>	<u>81</u>	<u>378</u>	<u>126</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 713</u>	<u>\$ 348</u>	<u>\$ 2,264</u>	<u>\$ 1</u>

* and ** See Page 4.

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
SHIRLEY SMITH, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES
August 10, 2002
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	892,271
4% on	\$	1,195,253

** Special Taxing Districts:

Library District	\$	221
Health District		199
Extension District		237
Soil Conservation Distirct		<u>(309)</u>
Due Districts or (Refunds Due Sheriff)	\$	<u><u>348</u></u>

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS

August 10, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the former Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The former Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 7, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$1,068,936 of public funds uninsured and unsecured.

ROCKCASTLE COUNTY
 NOTES TO FINANCIAL STATEMENT
 August 10, 2002
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official on November 5, 2003.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	200,000
Uncollateralized and uninsured	<u>1,068,936</u>
Total	<u><u>\$ 1,368,936</u></u>

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 21, 2001 through May 31, 2002.

Note 4. Interest Income

The former Rockcastle County Sheriff earned \$2,415 as interest income on 2001 taxes. As of November 18, 2003, the Sheriff owed \$316 in interest to the school district and \$255 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The former Rockcastle County Sheriff collected \$21,651 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The former Rockcastle County Sheriff collected \$1,226 of advertising costs and \$1,220 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The former Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
August 10, 2002
(Continued)

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The former Sheriff should have deposited any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2001 taxes, the former Sheriff had \$1,786 in unrefundable duplicate payments and unexplained receipts. Therefore, the former Sheriff should send a written report to the Treasury Department.

THIS PAGE LEFT BLANK INTENTIONALLY

COMMENTS AND RECOMMENDATIONS

ROCKCASTLE COUNTY
SHIRLEY SMITH, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

As of August 10, 2002

STATE LAWS AND REGULATIONS:

The Former Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,068,936 To Protect Deposits

On November 5, 2002, \$240,711 of the former Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. The former Sheriff should have required the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Former Sheriff Shirley Smith's Response:

None.

The Former Sheriff Should Have Distributed Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly "that part of his investment earnings for the month which is attributable to the investment of school taxes." The former Sheriff should have distributed the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff's fee account. During 2001 tax collections, former Sheriff Shirley Smith earned interest of \$2,415 on his tax account. However, former Sheriff Smith did not pay the interest to the Board of Education or the fee account on a monthly basis. As of November 18, 2003, former Sheriff Smith owed the Rockcastle County Board of Education \$316 and the fee account \$255. The former Sheriff should have complied with KRS 134.140(3)(b) and (d) by paying the amount of interest due to the school and fee account on a monthly basis.

Former Sheriff Shirley Smith's Response:

None.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control, such as functions prescribed by statutes and regulations and by budgetary constraints. Due to limited staff, a proper segregation of duties may be impossible. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness.

Former Sheriff Shirley Smith's Response:

None.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
Facsimile (502) 499-9132

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Buzz Carloftis, Rockcastle County Judge/Executive

Honorable Shirley Smith, Former Rockcastle County Sheriff

Honorable Darrell Doan, Rockcastle County Sheriff

Members of the Rockcastle County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Rockcastle County Sheriff's Settlement - 2001 Taxes as of August 10, 2002, and have issued our report thereon dated November 18, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Rockcastle County Sheriff's Settlement - 2001 Taxes as of August 10, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Former Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,068,936 To Protect Deposits
- The Former Sheriff Should Have Distributed Interest Earned On Tax Collections Monthly

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Rockcastle County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition listed above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in dark ink.

Ross & Company, PLLC

Audit fieldwork completed -
November 18, 2003

